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UNIDO Independent Audit Advisory Committee

Report of the Audit Advisory Committee

Report by the Chair

This document is issued pursuant to decision IDB.44/Dec.4 on the establishment of an Independent Audit Advisory Committee (AAC) and in line with the terms of reference adopted with the same decision, in particular paragraphs 2 (f) and 24. The present report provides information on the AAC's activities, the Committee's advice and self-assessment. Any comments from the Director General and/or the management response will be provided in an addendum to this document.

I. AAC activities from inception to July 2018

1. The AAC held its first meeting at UNIDO Headquarters in January 2018. Ms. Yuko Keicho was elected chairperson. The primary purpose of the meeting was to allow the AAC members to understand their mission, learn about the current business focus of UNIDO, and to establish a strong and open working relationship. Based on these discussions, the AAC developed its draft work programme, which identified three priority areas:

(a) To accelerate the implementation of audit recommendations made by the External Auditor, internal auditor, and the Joint Inspection Unit;

(b) To increase the alignment of the internal audit work programme with UNIDO's business objectives, strategies, and risks;

(c) To strengthen the internal audit function in reference to the standards of the Institute of the Internal Auditors (IIA).

2. The draft work programme was shared with the Director General, and in March 2018 the AAC Chair and a member gave a briefing (facilitated and moderated by the President of the Industrial Development Board, H.E. Paulina Franceschi Navarro) to Member States about the AAC's first meeting and the work programme.

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3. The AAC had a tele-conference with the Internal Oversight Division (ODG/EIO/IOD) in May 2018, to follow up on initial discussions on the implementation of audit recommendations.

4. The AAC reviewed the External Auditor's 2017 report in May 2018 and submitted its comments to the Director General and the Acting President of the Board for circulation to Member States.

II. Implementation of AAC work programme

5. **Acceleration of implementation of audit recommendations:** The AAC emphasized the importance of strengthening management's ownership of action plans for issues identified by IOD. The AAC advised that:

(a) Rather than providing recommendations, which management may not fully agree with, IOD should agree appropriate management actions with management that address the core findings;

(b) Management action plans should be specific and time-bound. Action owners should be identified within management and held accountable;

(c) IOD audits should highlight risks to the Organization and indicate root causes of problems so that management can address the issues effectively and report thereon to the Director General and the Board;

(d) IOD should periodically report to the Director General and the Board on the implementation status of action plans with risk implications of overdue actions;

(e) The Risk Management Committee should oversee and coordinate action plan implementation across the Organization for internal and external audits, and Joint Inspection Unit reviews.

III. Comments on the 2017 Report of the External Auditor

6. The External Auditor's report (document IDB.46/3) provided important observations on UNIDO's business performance at a strategic level. In addition to closing the funding gap for UNIDO's core functions, the AAC considers that the following three urgent areas require management's immediate actions.

7. **Establishment of the risk management framework:** The External Auditor urged in Section D.2 of the report, that UNIDO needs to update the internal control framework and develop a Statement of Internal Control. The AAC strongly supports these recommendations. Implementing an effective internal control framework with defined processes is essential for UNIDO's capability to anticipate emerging risks in an increasingly dynamic business environment, and respond to them in a timely manner. Codifying risks of UNIDO and clarifying the assignment of roles and responsibilities for risk oversight and specific risk management are crucial. We look forward to hearing from the Risk Management Committee what concrete progress has been made on this when we meet with its Chair in November 2018.

8. A specific risk relates to the staffing gaps in internal audit and evaluation. The assurance mapping exercise that is currently underway by IOD will document insights on the strategic risks that are presently not covered, including those related to staffing.

9. As the External Auditor recommended, it is necessary to reflect the AAC's roles and scope in UNIDO's rules and regulations, as well as in the internal control framework, since the AAC constitutes an important element of risk governance of UNIDO.

10. **Capturing and analysing costs of doing business:** In Section D.1 of the report, the External Auditor recommended that UNIDO should strengthen time-recording by project managers and all others supporting these services. This is an important

element for capturing programme support costs, and is not onerous given simple and cheap software available for this purpose. UNIDO in general needs to establish a robust process to capture and analyse the cost of doing business across various functions. Doing so will not only increase transparency in the use of funds, but will also allow UNIDO to identify inefficiencies and benchmark itself against other relevant players in the market.

11. **Strengthening information and communications technology (ICT):** The AAC shares the External Auditor's concerns regarding ICT and supports its recommendations in section D.3 of the report. It is critical for UNIDO to have a well-established ICT strategy, if not an overarching UNIDO digital strategy. Merely focusing on day-to-day system operations, maintenance and support is not enough. Innovation to the business of UNIDO will be brought through strategic adoption of emerging and conventional technologies with a strong sense of urgency. The AAC endorses the External Auditor's recommendations to better integrate ICT considerations into overall business strategy discussions, strengthen the ICT governance, cybersecurity management, IT risk management, establish the key missing ICT roles, and developing a well-aligned IT capital investment road map.

12. The AAC considers it critically important that the Board own the External Auditor's reports, prioritize issues, and request the Director General to implement actions by providing necessary resources. Therefore, we believe that the External Auditor's reports should be thoroughly discussed at the Programme and Budget Committee and the Board sessions. To facilitate this, the AAC requests that its comments on the External Auditor's reports be duly considered by the Programme and Budget Committee as an input going forward. It is important for the Board to receive periodic reports from management on the implementation of the recommendations. For those recommendations which management did not agree with, or did not provide specific action plans, the Board should request management to indicate how the associated risks have been, or will be, mitigated.

IV. Budget and resource usage

13. The AAC budget approved for the current biennium, i.e. from January 2018 to December 2019, is €88,000; expenses to date are €25,700 for one physical meeting. The only expense item relates to the annual meetings at Headquarters.

14. The AAC considers that the current level of budget is insufficient for the reasonable achievement of its objectives included in the AAC's terms of reference. The current budget allows the members to meet only three times per biennium. Our experience to date has shown that virtual meetings are sub-optimal. In the rapidly evolving business environment, we believe that the AAC needs to meet twice a year in Vienna and have continuous engagement with management.

V. Action required of the Board

15. The Board may wish to take note of the information provided in the present report and provide guidance on (a) the Board's follow up on the External Auditor's recommendations, (b) future use of the AAC's comments on the External Auditor's reports by the Programme and Budget Committee, and (c) the adequacy of the AAC budget.